

MENDON CITY

Financial Statements

For the Year Ended June 30, 2006

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
Mendon City
Mendon, Utah

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mendon City, Utah (the City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* I have also issued a report dated December 22, 2006, on my consideration of the City's internal control over financial reporting and over tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 9 and on page 33, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

MATTHEW REGEN, CPA, PC

Matthew Regen, CPA, PC

December 22, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Mendon City (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The total net assets (government and business-type activities) of the City increased during fiscal year 2006 by \$298,049 to a total of \$1,924,892. The governmental net assets increased by \$225,249 and the business-type net assets increased by \$72,800.
- The total net assets (government and business-type activities) of the City consist of \$1,375,699 in capital assets, net of related debt, \$57,525 in restricted net assets and \$491,668 in unrestricted net assets.
- The total long-term liabilities of the City were reduced \$10,504 during the fiscal year 2006.

REPORTING THE CITY AS A WHOLE

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, there will also be a need to consider other non-financial factors.
- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are

intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, parks and recreation, and public works. The business-type activities of the City include the water utility. The government-wide financial statements can be found on pages 11 and 12 of this report.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the city's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The only major governmental funds (as determined by generally accepted accounting principles) are the General Fund and the Capital Project Fund. The City has two non-major funds: The Municipal Building Authority (a blended component unit) and the Perpetual Care Fund.

- **Proprietary funds** - The City maintains only one proprietary fund, an enterprise fund, to account for its culinary water utility operations. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. As determined by generally accepted accounting principles, the Water Fund meets the criteria for major fund classification.
- **Fiduciary funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City currently has no fiduciary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,924,892.

By far, the largest portion of the City's net assets (72 percent) reflect its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less depreciation and any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following schedules present summarized information from the Statement of Net Assets and the Statement of Activities.

STATEMENT OF NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Current and other assets	\$ 398,667	403,025	165,859	237,579	564,526	640,604
Capital assets	805,703	1,035,078	624,718	615,512	1,430,421	1,650,590
Total assets	1,204,370	1,438,103	790,577	853,091	1,994,947	2,291,194
Current liabilities	77,517	88,300	15,765	14,222	93,282	102,522
Noncurrent liabilities	211,250	208,951	63,572	54,829	274,822	263,780
Total liabilities	288,767	297,251	79,337	69,051	368,104	366,302
Invested in capital assets, net of debt	592,233	823,799	552,793	551,900	1,145,026	1,375,699
Restricted	33,874	45,765	11,760	11,760	45,634	57,525
Unrestricted	289,496	271,288	146,687	220,380	436,183	491,668
Total net assets	\$ 915,603	1,140,852	711,240	784,040	1,626,843	1,924,892

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Revenues:						
Program revenues:						
Charges for services	\$ 116,792	118,344	161,459	157,807	278,251	276,151
Operating grants	115,029	132,922	-	-	115,029	132,922
Capital Grants & Contributions	-	109,991	-	-	-	109,991
General revenues:						
Property taxes	74,656	86,977	-	-	74,656	86,977
Sales and use taxes	75,882	84,821	-	-	75,882	84,821
Franchise taxes	3,382	2,463	-	-	3,382	2,463
Other revenues	8,457	17,135	1,581	2,660	10,038	19,795
Total revenues	<u>394,198</u>	<u>552,653</u>	<u>163,040</u>	<u>160,467</u>	<u>557,238</u>	<u>713,120</u>
Expenses:						
General government	72,882	125,561	-	-	72,882	125,561
Public safety	44,526	77,718	-	-	44,526	77,718
Streets and public improvements	133,435	51,437	-	-	133,435	51,437
Parks and recreation	34,562	62,567	-	-	34,562	62,567
Interest on long-term debt	10,194	10,121	-	-	10,194	10,121
Water	-	-	88,767	87,667	88,767	87,667
Total expenses	<u>295,599</u>	<u>327,404</u>	<u>88,767</u>	<u>87,667</u>	<u>384,366</u>	<u>415,071</u>
Change in net assets	98,599	225,249	74,273	72,800	172,872	298,049
Net assets – beginning (07-01)	<u>817,004</u>	<u>915,603</u>	<u>636,967</u>	<u>711,240</u>	<u>1,453,971</u>	<u>1,626,843</u>
Net assets – ending (06-30)	<u>\$ 915,603</u>	<u>1,140,852</u>	<u>711,240</u>	<u>784,040</u>	<u>1,626,843</u>	<u>1,924,892</u>

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The financial reporting focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information may be useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$317,053, a decrease of \$6,317 over the prior year. Of this total amount \$271,288 constitutes unreserved fund balance, which is available to meet the future financial needs of the City. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for the perpetual care of the cemetery, road maintenance and law enforcement.

The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 41 percent of total general fund revenues. The two largest elements of taxes are sales taxes and property taxes. Combined they represent 99 percent of total tax revenues and 41 percent of total general fund revenues.

The City maintains an enterprise fund to account for the business-type activities of the City. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the current fiscal year the General Fund budget for revenues was \$322,500. The actual revenue was \$424,752. This resulted in a favorable variance of \$102,252 for revenue. The General Fund budget for expenditures was \$373,130. The actual expenditures were \$348,202. This resulted in a favorable variance for \$24,928 for expenditures. Overall, the City had a favorable variance for the excess of revenues over expenditures of \$127,180.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$1,650,590 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, machinery and equipment, park facilities, roads and infrastructure (streets, sidewalks, curb and gutter, etc.). The increase in the City's investment in capital assets for the current fiscal year was \$290,576 and depreciation expense was \$70,408.

Major capital assets purchased during the fiscal year included the following:

- \$194,563 for restoration of the Mendon Station
- \$37,059 for fire department equipment
- \$26,631 for road improvements
- \$14,971 for improvements to the water system
- \$9,981 for playground equipment

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt – At June 30, 2006, the City had total bonded debt outstanding of \$274,891 which consists of \$63,612 in revenue bonds used to improve the water system and \$211,279 of general obligation debt used to build the City's fire hall.

Additional information on the outstanding debt obligations of the City can be found in the footnotes to this financial report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Mendon City, 95 North Main, P.O. Box 70, Mendon, Utah, 84325.

BASIC FINANCIAL STATEMENTS

MENDON CITY
STATEMENT OF NET ASSETS
JUNE 30, 2006

<u>Assets</u>	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Pooled cash and cash equivalents	\$ 294,865	196,803	491,668
Receivables, net	108,160	40,776	148,936
Fixed assets, net	<u>1,035,078</u>	<u>615,512</u>	<u>1,650,590</u>
Total assets	<u>1,438,103</u>	<u>853,091</u>	<u>2,291,194</u>
<u>Liabilities</u>			
Liabilities:			
Accounts payable and accrued expenses	23,167	5,439	28,606
Deferred revenue	62,805	-	62,805
Non-current liabilities:			
Due within one year	2,328	8,783	11,111
Due in more than one year	<u>208,951</u>	<u>54,829</u>	<u>263,780</u>
Total liabilities	<u>297,251</u>	<u>69,051</u>	<u>366,302</u>
<u>Net Assets</u>			
Investments in capital assets, net of related debt	823,799	551,900	1,375,699
Restricted	45,765	11,760	57,525
Unrestricted	<u>271,288</u>	<u>220,380</u>	<u>491,668</u>
Total net assets	\$ <u>1,140,852</u>	<u>784,040</u>	<u>1,924,892</u>

The accompanying notes are an integral part of these financial statements.

MENDON CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental:							
General government	\$ 125,561	77,249	-	-	(48,312)	-	(48,312)
Public safety	77,718	32,323	34,083	-	(11,312)	-	(11,312)
Streets and public improvements	51,437	-	48,839	-	(2,598)	-	(2,598)
Parks and recreation	54,762	4,497	50,000	109,991	109,726	-	109,726
Cemetery	7,805	4,275	-	-	(3,530)	-	(3,530)
Interest on long-term debt	10,121	-	-	-	(10,121)	-	(10,121)
Total governmental activities	327,404	118,344	132,922	109,991	33,853	-	33,853
Business-type activities:							
Water fund							
Total business-type activities	87,667	157,807	-	-	-	70,140	70,140
Total primary government	87,667	157,807	-	-	-	70,140	70,140
	<u>415,071</u>	<u>276,151</u>	<u>132,922</u>	<u>109,991</u>	<u>33,853</u>	<u>70,140</u>	<u>103,993</u>
General revenues:							
Taxes:							
Sales and use tax					84,821	-	84,821
Property tax					86,977	-	86,977
Franchise & other taxes					2,463	-	2,463
Total taxes					174,261	-	174,261
Interest income					17,135	2,660	19,795
Total general revenues					191,396	2,660	194,056
Change in net assets					225,249	72,800	298,049
Net assets - beginning					915,603	711,240	1,626,843
Net assets - ending					\$ 1,140,852	784,040	1,924,892

The accompanying notes are an integral part of these financial statements.

MENDON CITY
BALANCE SHEET -
GOVERNMENTAL FUNDS
JUNE 30, 2006

<u>Assets</u>	<u>General</u>	<u>Capital Project Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Pooled cash and cash equivalents	\$ 204,269	48,020	42,576	294,865
Receivables, net	<u>108,160</u>	<u>-</u>	<u>-</u>	<u>108,160</u>
Total assets	<u>312,429</u>	<u>48,020</u>	<u>42,576</u>	<u>403,025</u>
 <u>Liabilities and Fund Equities</u>				
Liabilities:				
Accounts payable	23,167	-	-	23,167
Deferred revenue	<u>62,805</u>	<u>-</u>	<u>-</u>	<u>62,805</u>
Total liabilities	<u>85,972</u>	<u>-</u>	<u>-</u>	<u>85,972</u>
Fund equity:				
Fund balances				
Reserved	11,391	-	34,374	45,765
Unreserved - undesignated	<u>215,066</u>	<u>48,020</u>	<u>8,202</u>	<u>271,288</u>
Total fund equity	<u>226,457</u>	<u>48,020</u>	<u>42,576</u>	<u>317,053</u>
Total liabilities and fund equity	<u>\$ 312,429</u>	<u>48,020</u>	<u>42,576</u>	<u>403,025</u>

The accompanying notes are an integral part of these financial statements.

MENDON CITY
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances for governmental funds \$ 317,053

Net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 47,083	
Buildings and improvements	888,112	
Machinery and equipment	242,307	
Infrastructure	53,612	
Accumulated depreciation	<u>(196,036)</u>	1,035,078

Long-term liabilities and related accrued interest are not due and payable in the current period and, therefore, are not reported in the funds. (211,279)

Net assets of governmental activities \$ 1,140,852

The accompanying notes are an integral part of these financial statements.

MENDON CITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General	Capital Project Fund	Nonmajor Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 174,261	-	-	174,261
Licenses	16,977	-	-	16,977
Intergovernmental	156,622	-	-	156,622
Charges for services	71,338	-	2,775	74,113
Fines and forfeitures	4,272	-	-	4,272
Miscellaneous revenues	1,282	125,126	-	126,408
Total revenues	424,752	125,126	2,775	552,653
Expenditures:				
General government	124,777	-	80	124,857
Public safety	104,579	-	-	104,579
Streets and public improvements	70,112	-	-	70,112
Parks and recreation	48,735	210,688	-	259,423
Total expenditures	348,203	210,688	80	558,970
Excess (deficiency) of revenues over expenditures	76,550	(85,562)	2,695	(6,317)
Fund balance - beginning of year	149,907	133,582	39,881	323,370
Fund balance - end of year	\$ 226,457	48,020	42,576	317,053

The accompanying notes are an integral part of these financial statements.

MENDON CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balance - Total governmental funds	\$ (6,317)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$275,605 exceeded depreciation expense of \$46,230 in the current year.

229,375

Long-term debt proceeds provides current financial resources to governmental funds by issuing debt which increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal are expenditures in the governmental funds:

Payment of long-term debt principal	<u>2,191</u>
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Changes in net assets of governmental activities	\$ <u><u>225,249</u></u>
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The accompanying notes are an integral part of these financial statements.

MENDON CITY
STATEMENT OF NET ASSETS -
PROPRIETARY FUND
JUNE 30, 2006

<u>Assets</u>	<u>Water Fund</u>	<u>Total Business- Type Activities</u>
Pooled cash and cash equivalents	\$ 196,803	196,803
Receivables, net	40,776	40,776
Fixed assets, net	<u>615,512</u>	<u>615,512</u>
Total assets	<u>853,091</u>	<u>853,091</u>
 <u>Liabilities</u>		
Accounts payable	5,439	5,439
Non-current liabilities:		
Due within one year	8,783	8,783
Due in more than one year	<u>54,829</u>	<u>54,829</u>
Total liabilities	<u>69,051</u>	<u>69,051</u>
 <u>Net Assets</u>		
Investments in capital assets, net of related debt	551,900	551,900
Restricted:		
Bond requirements	11,760	11,760
Unrestricted	<u>220,380</u>	<u>220,380</u>
Total net assets	<u>\$ 784,040</u>	<u>784,040</u>

The accompanying notes are an integral part of these financial statements.

MENDON CITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Water Fund	Total Business- Type Activities
Operating revenues:		
Services	\$ 138,683	138,683
Connection fees	19,124	19,124
Total operating revenues	<u>157,807</u>	<u>157,807</u>
Operating expenses:		
Salaries and benefits	9,568	9,568
Current expenses	50,475	50,475
Depreciation	24,177	24,177
Total operating expense	<u>84,220</u>	<u>84,220</u>
Operating income	73,587	73,587
Non-operating income (expense):		
Interest income	2,660	2,660
Interest expense	(3,447)	(3,447)
Total non-operating income (expense)	<u>(787)</u>	<u>(787)</u>
Change in net assets	72,800	72,800
Net assets - beginning of year	<u>711,240</u>	<u>711,240</u>
Net assets - end of year	<u>\$ 784,040</u>	<u>784,040</u>

The accompanying notes are an integral part of these financial statements.

MENDON CITY
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Water Fund	Total Business- Type Activities
<u>Cash flows from operating activities:</u>		
Receipts from customers and users	\$ 161,203	161,203
Payments to suppliers	(52,448)	(52,448)
Payments to employees	(9,568)	(9,568)
Net cash provided by operating activities	99,187	99,187
<u>Cash flows from non-capital financing activities</u>	-	-
<u>Cash flows from capital and related financing activities:</u>		
Purchases of capital assets	(14,971)	(14,971)
Principal payments on bonds	(8,313)	(8,313)
Interest payments on bonds	(3,447)	(3,447)
Net cash used in capital and related financing activities	(26,731)	(26,731)
<u>Cash flows from investing activities:</u>		
Interest on investments	2,660	2,660
Net cash provided by investing activities	2,660	2,660
Net increase in cash and cash equivalents	75,116	75,116
Cash and cash equivalents at beginning of year	121,687	121,687
Cash and cash equivalent at end of year	\$ 196,803	196,803
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 73,587	73,587
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	24,177	24,177
Change in assets and liabilities:		
Decrease in accounts receivable	3,396	3,396
Decrease in accounts payable	(1,973)	(1,973)
Total adjustments	25,600	25,600
Net cash provided by operating activities	\$ 99,187	99,187

The accompanying notes are an integral part of these financial statements.

MENDON CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The City of Mendon (the City) was incorporated in 1883 under the laws of the state of Utah. The City operates by ordinance under the Mayor-Council form of government and provides such services as are authorized by its charter including public safety (police and fire), highway and streets, sanitation, recreation, public improvements, planning and zoning, and general administration. In addition, the City owns and operates a water utility.

The accounting and reporting policies of the City relating to the accompanying financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued prior to December 1, 1989, which do not conflict with or contradict GASB pronouncements. The City has elected not to follow FASB pronouncements issued after November 30, 1989 in the preparation of these financial statements. The following represents the more significant accounting and reporting policies and practices used in the preparation of these financial statements:

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. The interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Note 1 – Summary of Significant Accounting Policies (continued)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The City applies expenses for restricted resources first when both restricted and unrestricted net assets are available.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recognized only when payment is due.

Property taxes, state-shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Capital Projects Fund is used to account for financial resources to be used for the acquisition of capital facilities and equipment by the city.

The City reports the following major proprietary fund:

- The Water Utility accounts for the activities of the City's water production, treatment, and distribution operations.

Note 1 – Summary of Significant Accounting Policies (continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$2,500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation of all exhaustible fixed assets used is charged as an expense against the City's operations. Accumulated depreciation is reported on the financial statements. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	10 to 40 years
Water system and equipment	7 to 40 years
Machinery and equipment	5 to 10 years
Infrastructure	25 years

GASB Statement No. 34 requires the City to report infrastructure assets beginning on July 1, 2003 with the option of reporting its pre-existing infrastructure assets retroactively. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), etc. The City elected not to report its infrastructure assets retroactively.

In the governmental fund financial statements, the acquisition or construction of capital assets is accounted for as capital outlay expenditures.

Deferred Revenues

In the government-wide statements and the proprietary fund statements, deferred revenue is recognized when cash or other assets are received or recognized prior to being earned. In the governmental fund statements, deferred revenue is recognized when revenue is either unearned or unavailable.

Note 1 – Summary of Significant Accounting Policies (continued)

Long-term Debt

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government wide financial statements. The long-term debt consists primarily of bonds payable.

Long-term debt for the governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payments or principle and interest reported as expenditures. The accounting for proprietary fund long-term debt is the same as in the fund statements as in the government-wide statements.

Equity Classifications

Equity in the government-wide financial statements is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of these assets.
- Restricted net assets – Consists of net assets with constraints placed on the usage whether by 1) external groups such as creditors, grantors or laws and regulations of other governments; 2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Governmental fund equity is classified as fund balance in the fund financial statements. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide financial statements.

Property Taxes

Cache County assesses all taxable property other than centrally-assessed property, which is assessed through the state, by May 22 of each year. The City must adopt a final tax rate prior to June 22, which is then submitted to the State for approval. Property taxes are due on November 30. Delinquent taxes are subject to a penalty of 2% for \$10.00, whichever is greater. After January 16 of the following year, delinquent taxes and penalties bear interest at 6% above the federal discount rate from January 1 until paid.

Note 1 – Summary of Significant Accounting Policies (continued)

Property tax revenues are recognized when they become measurable and available. Amounts available include those property tax receivables expected to be collected within 60 days after year end.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted for governmental and proprietary fund types. Encumbrance accounting is not employed by the City in its governmental funds, therefore all annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital project funds.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the Statement of Net Assets, the term “cash and cash equivalents” includes all demand deposit accounts, savings accounts, or other short-term, highly-liquid investments. For the purposes of the Statement of Cash Flows, the enterprise funds consider all highly liquid investments (including restricted assets) with original maturities of three months or less to be cash equivalents.

Note 2 – Deposits and Investments

The City follows the requirements for the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This Act requires the depositing of City’s funds in a “qualified depository”. The Act defines a “qualified depository” as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Utah Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the City’s deposits may not be returned. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2006 none of the City’s bank balances were uninsured and/or uncollateralized.

Note 2 – Deposits and Investments (continued)

Investments

The Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investment transactions. Investment transactions may only be conducted through qualified depositories, certified dealers or directly with the issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations, one of which must be Moody’s Investors Service or Standards & Poor’s; bankers’ acceptances; obligations of the United States Treasury including bills, notes and bonds; bonds, notes and other evidence of indebtedness of political subdivisions of the state; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; shares or certificates in money market mutual fund as defined by the Act; and the Utah State Public Treasurer’s Investment Fund (PTIF).

The Utah State Treasurer’s Office operates the PTIF. The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Act established by the Money Management Council which oversees the activities of the state treasurer and the PTIF, and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses, net of administrations fees, of the PTIF are allocated based upon the participant’s average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

The City’s investments on June 30, 2006, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities</u> (Less than one year)	<u>Quality Rating</u>
State of Utah PTIF	<u>\$566,078</u>	<u>\$566,078</u>	Unrated

Note 2 – Deposits and Investments (continued)

Interest Rate Risk – Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits and fixed rate corporate obligations of 270 to 365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have remaining term to final maturity exceeding two years.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing its exposure to credit risk is to comply with the Act as previously discussed. See the quality ratings on the investment schedules above.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy for custodial credit risk in regard to the custody of the City's investments.

Concentration of Credit Risk – Concentrations of credit risk is the risk of loss attributed to the magnitude of government's investment in a single issuer. The City's policy for reducing this risk of loss is to comply with the Rules of Money Management Council.

Note 3 – Legal Compliance – Budgets

On or before the first scheduled city council meeting in May, all agencies of the City submit requests for appropriation to the City's financial officer so that a budget may be prepared. The budget is prepared by fund, function, and activity, and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The proposed budget is presented to the city council for review at the first scheduled meeting in May. The city council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. Any changes to the budget must be within the revenues and reserves estimated as available by the city financial officer or the revenue estimates must be changes by an affirmative vote of a majority of the city council. Within 30 days of adoption, the final budget must be submitted to the State Auditor. If there is no increase to the certified tax rate, a final tax rate is adopted by June 22 and adoption of budgets is done similarly.

Note 3 – Legal Compliance – Budgets (continued)

State statute requires that city officers shall not make or incur expenditures or encumbrances in excess of total appropriations for any department in the budget as adopted or subsequently amended.

Note 4 – Receivables

The City has property and sales taxes, accounts receivable and receivables due from other governments as of June 30, 2006 as follows:

General Fund:

Taxes:

Property taxes	\$ 65,568
Sales taxes	<u>17,010</u>

Total taxes receivable	<u>82,578</u>
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Accounts:

Garbage	13,168
911 fees	<u>2,122</u>

Total accounts receivable	<u>15,290</u>
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Due from other governments:

Class "C" roads – State of Utah	<u>10,292</u>
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Total receivables	\$ <u>108,160</u>
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Water Fund:

Accounts:

Services and fees	\$ <u>40,776</u>
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Note 5 – Capital Assets

Capital asset changes occurring for the year ended June 30, 2006, are as follows:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ <u>47,083</u>	<u>-</u>	<u>-</u>	<u>47,083</u>
Total capital assets not being depreciated	<u>47,083</u>	<u>-</u>	<u>-</u>	<u>47,083</u>
Capital assets being depreciated:				
Buildings and improvements	676,197	211,915		888,112
Equipment	205,248	37,059		242,307
Infrastructure	<u>26,981</u>	<u>26,631</u>	<u>-</u>	<u>53,612</u>
Total capital assets being depreciated	<u>908,426</u>	<u>275,605</u>	<u>-</u>	<u>1,184,031</u>
Accumulated depreciation for:				
Buildings	(118,982)	(25,424)		(144,406)
Equipment	(28,666)	(19,194)		(47,860)
Infrastructure	<u>(2,158)</u>	<u>(1,612)</u>	<u>-</u>	<u>(3,770)</u>
Total accumulated depreciation	<u>(149,806)</u>	<u>(46,230)</u>	<u>-</u>	<u>(196,036)</u>
Total capital assets being depreciated, net	<u>758,620</u>	<u>229,375</u>	<u>-</u>	<u>987,995</u>
Total governmental activities Capital assets, net	\$ <u>805,703</u>	<u>229,375</u>	<u>-</u>	<u>1,035,078</u>

Depreciation expense was charged to functions of the City as follows:

General government	\$ 13,097
Public safety	10,198
Streets and public improvements	7,956
Parks and recreation	<u>14,979</u>
Total depreciation expense	\$ <u>46,230</u>

Note 5 – Capital Assets (continued)

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ <u>29,387</u>	<u>-</u>	<u>-</u>	<u>29,387</u>
Total capital assets not being depreciated	<u>29,387</u>	<u>-</u>	<u>-</u>	<u>29,387</u>
Capital assets being depreciated:				
Water system	<u>931,622</u>	<u>14,971</u>		<u>946,593</u>
Equipment	<u>50,538</u>	<u>-</u>	<u>-</u>	<u>50,538</u>
Total capital assets being depreciated	<u>982,160</u>	<u>14,971</u>	<u>-</u>	<u>997,131</u>
Accumulated depreciation for:				
Water system	<u>(339,441)</u>	<u>(23,478)</u>	<u>-</u>	<u>(362,919)</u>
Equipment	<u>(47,388)</u>	<u>(700)</u>	<u>-</u>	<u>(48,088)</u>
Total accumulated depreciation	<u>(386,829)</u>	<u>(24,178)</u>	<u>-</u>	<u>(411,007)</u>
Total capital assets being depreciated, net	<u>595,331</u>	<u>(9,207)</u>	<u>-</u>	<u>586,124</u>
Total business-type activities capital assets, net	\$ <u>624,718</u>	<u>(9,207)</u>	<u>-</u>	<u>615,511</u>

Note 6 – Long-term Debt

Long-term liability transactions for the fiscal year ended June 30, 2006, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Bond payable	\$ 213,470	-	(2,191)	211,279	2,328
Total governmental long-term liabilities	\$ 213,470	-	(2,191)	211,279	2,328
<u>Business-type Activities:</u>					
Bond payable	\$ 71,925	-	(8,313)	63,612	8,783
Total business-type long-term liabilities	\$ 71,925	-	(8,313)	63,612	8,783

Governmental Activities

Long-term debt for governmental activities consists of the following:

Bond payable

\$220,000 lease revenue bond to United States Department of Agriculture, payable in monthly installments of \$1,026 including interest at 4.75%. Matures on February 5, 2042.

\$ 211,279

The following is a summary of the annual payments to maturity:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	2,328	9,984	12,312
2008	2,441	9,871	12,312
2009	2,559	9,753	12,312
2010	2,684	9,628	12,312
2011	2,814	9,498	12,312
2012-2016	16,257	45,303	61,560
2017-2021	20,605	40,955	61,560
2022-2026	26,114	35,446	61,560
2027-2031	33,101	28,459	61,560
2032-2036	41,956	19,604	61,560
2037-2041	53,178	8,382	61,560
2042	7,242	117	7,359
Totals	\$ 211,279	227,000	438,279

Note 6 – Long-term Debt (continued)

Business-type Activities

Long-term debt for business-type activities consists of the following:

Bond Payable

\$120,028 Water Revenue Bonds, Series 2001, issued September 1, 2001. Due to General Electric Capital in monthly installments of \$980 including interest at 5%. Matures on October 1, 2013.

\$ 63,612

The following is a summary of the annual payments to maturity:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	8,783	2,977	11,760
2008	9,233	2,527	11,760
2009	9,705	2,055	11,760
2010	10,199	1,561	11,760
2011	11,272	1,037	12,309
2012-2013	<u>14,420</u>	<u>524</u>	<u>14,944</u>
Totals	\$ <u>63,612</u>	<u>10,681</u>	<u>74,293</u>

Note 7 – Restricted Net Assets/Reserved Fund Equity

Restricted net assets and reserved fund balances represent amounts required to be maintained to satisfy third party agreements or legal requirements. The following schedule details restricted net assets and reserved equity balances at June 30, 2006:

General Fund:

Road construction and maintenance reserve	\$ 10,826
Liquor law enforcement reserve	<u>565</u>
Total general fund reserve	\$ <u>11,391</u>

Perpetual Care Fund:

Perpetual care reserve	\$ <u>34,374</u>
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Water Fund:

Bond reserve	\$ <u>11,760</u>
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REQUIRED SUPPLEMENTARY INFORMATION

**MENDON CITY
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Property tax	\$ 81,609	81,609	86,977	5,368
Sales tax	72,000	72,000	84,821	12,821
Franchise tax	2,300	2,300	2,463	163
RAPZ tax	-	-	50,000	50,000
Licenses and permits	25,000	25,000	16,977	(8,023)
Intergovernmental	66,591	66,591	106,622	40,031
Charges for services	55,000	55,000	71,338	16,338
Fines and forfeitures	4,000	4,000	4,272	272
Miscellaneous revenues	16,000	16,000	1,282	(14,718)
Total revenues	<u>322,500</u>	<u>322,500</u>	<u>424,752</u>	<u>102,252</u>
Expenditures:				
General government	68,000	68,000	61,079	6,921
Sanitation	63,000	63,000	63,697	(697)
Public safety	92,380	92,380	104,579	(12,199)
Streets and public improvements	86,000	86,000	70,112	15,888
Parks and recreation	63,750	63,750	48,735	15,015
Total expenditures	<u>373,130</u>	<u>373,130</u>	<u>348,202</u>	<u>24,928</u>
Excess (deficiency) of revenues over expenditures	<u>(50,630)</u>	<u>(50,630)</u>	<u>76,550</u>	<u>127,180</u>
Other financing sources (uses):				
Transfers in:				
Capital Projects Fund	63,130	63,130	-	-
Transfers out:				
Municipal Building Authority	<u>(12,500)</u>	<u>(12,500)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>50,630</u>	<u>50,630</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>-</u>	<u>76,550</u>	<u>127,180</u>
Fund balance - beginning of year	\$		<u>149,907</u>	
Fund balance - end of year	\$		<u>226,457</u>	

See Independent Accountant's Report.

MENDON CITY
NOTE TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2006

Expenditure in Excess of Budget

The sanitation and public safety departments of the general fund had expenditures in excess of budget in the amounts of \$697 and \$12,199, respectively, for the year ended June 30, 2006.

GOVERNMENTAL AUDIT REPORT

MATTHEW REGEN, CPA, PC

Certified Public Accountant/Business Consultant

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**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance
with *Government Auditing Standards***

To the Honorable Mayor and City Council
Mendon City
Mendon, Utah

I have audited the financial statements of Mendon City (the City) as of and for the year ended June 30, 2006 and have issued my report thereon dated December 22, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain matters that I reported to management of the City in a separate letter dated December 22, 2006.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Company's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I would consider to be material weaknesses.

This report is intended solely for the information of the management of the City, the City Council and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

MATTHEW REGEN, CPA, PC

Matthew Regen CPA PC

December 22, 2006

STATE COMPLIANCE REPORT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LEGAL COMPLIANCE REQUIREMENTS

To the Honorable Mayor and City Council
Mendon City
Mendon, Utah

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mendon City, Utah (the City), for the year ended June 30, 2006, and have issued my report thereon dated December 22, 2006. As part of my audit, I have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major assistance programs from the State of Utah:

Class C Road Funds (Department of Transportation)
Liquor Law Enforcement Funds (State Tax Commission)

My audit also included test work on the City's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Liquor Law Enforcement
C Road Funds
Special Districts
Other General Compliance Issues
Department of Commerce
Impact Fees and Other Developmental Fees

Management of the City is responsible for the City's compliance with all compliance requirements identified above. My responsibility is to express an opinion on compliance with those requirements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. I believe that my audit provides a reasonable basis for my opinion.

The results of my audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying management letter. I considered these instances of noncompliance in forming my opinion on compliance, which is expressed in the following paragraph.

In my opinion, the City complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ending June 30, 2006.

Matthew Regen, CPA, PC

Handwritten signature of Matthew Regen in cursive script, followed by the printed text "CPA PC".

December 22, 2006

December 22, 2006

To the Honorable Mayor and City Council
Mendon City
Mendon, Utah

In planning and performing my audit of the financial statements of Mendon City (the City) for the year ended June 30, 2006, I observed certain matters related to compliance, internal control structure (other than "reportable conditions") and certain administrative and operating matters. My observations and recommendations are summarized below.

Current Year Recommendations

1. **Finding:** *Budgetary compliance* - Expenditures exceeded their appropriations in several of the City's departments (Sanitation and Public Safety).

Recommendation: I recommend that you monitor each department's budget more closely and adopt budget changes as necessary.

Management response: Each department will monitor their budgets more closely and budgets will be adjusted as required.

2. **Finding:** *Records retention* – The City does not have a formal records retention program.

Recommendation: I recommend that you adopt a formal records retention program in compliance with the State's Government Records Access and Management Act.

Management response: A formal records retention program will be adopted and implemented for the City.

Prior Year Recommendations

1. **Finding:** *Budgetary compliance* - Expenditures exceeded their appropriations in several of the City's departments (General Government and Public Safety).

Recommendation: Monitor each department's budget more closely and adopt budget changes as necessary.

Prior Year Recommendations (continued)

Management response: Each department will monitor their budgets more closely and budgets will be adjusted as required.

Status: This remains a finding for the current year. See current year recommendation #1.

2. Finding: *Records retention* – The City does not have a formal records retention program.

Recommendation: Adopt a formal records retention program in compliance with the State's Government Records Access and Management Act.

Management response: A formal records retention program will be adopted and implemented for the City.

Status: This remains a finding for the current year. See current year recommendation #2.

3. Finding: *Purchasing policy* – The City does not have a formal purchasing policy.

Recommendation: Adopt a formal purchasing policy in accordance with the State's Uniform Fiscal Procedures Act.

Management response: A purchasing policy will be adopted and implemented for the City.

Status: A purchasing policy has been adopted by the City.

In conclusion, I appreciate the assistance of all of the city personnel and administrators who were involved in this audit. I would especially like to recognize Daphne Carlson and Paul Cressall for their hard work and cooperation. Thank you for the opportunity to serve you.

Sincerely,

MATTHEW REGEN, CPA, PC

